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UNCLAS SECTION 01 OF 02 TAIPEI 000605

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SUBJECT: TAIWAN SLOWLY OPENING DOOR TO PRC EMPLOYEES

REF: A. 05 TAIPEI 3839
1B. 05 TAIPEI 2869
1C. 05 TAIPEI 4395
1D. 04 TAIPEI 3605

11. (SBU) Summary: Taiwan has made gradual but notable progress in making it easier for firms in Taiwan, both foreign and local, to bring Mainland employees to Taiwan for business activities. Requirements have been lowered and processing times have been reduced. The next step will be to treat business visitors from China more like visitors from any other location. This should be combined with broader efforts to allow companies to employ workers from outside Taiwan. These efforts could help Taiwan address labor shortages and take advantage of its potential as a regional center for greater China.
End summary.

12. (U) Among cross-Strait policy recommendations, one of the highest policy priorities of the foreign business community in Taiwan has been further reform of entry-permit requirement and procedures for Mainland personnel traveling to Taiwan for business. It has repeatedly been included in both the American Chamber of Commerce's (Amcham) annual White Paper and the European Chamber of Commerce's Position Papers.

Small Steps Adding Up

13. (U) In the last few years, there have been several small but important steps in the liberalization of cross-Strait personnel flow during the Chen administration. They include the following:

-- Capital Requirements. The requirement for firms wishing to invite Mainland employees for research and development activities was lowered in October 2003 from capitalization or annual revenue of NT\$30 million to NT\$10 million. In November 2004, the requirement was relaxed to allow new firms with capitalization of NT\$5 million (about US\$ 150,000) to invite Mainland employees for any short-term business activities.

-- Length of Stay. In February 2002, the maximum length of stay for research activities was extended from three to six years. In September 2002, the maximum length for employees of multinational firms coming to Taiwan for

work or training was extended from four months to three years with the possibility of multiple extensions of one year each.

-- Number of Visitors. The ceiling for the number of Mainland employees invited for research and development activities was eliminated in October 2003. The ceiling for other activities was set at 15 for smaller firms and 30 for larger ones in November 2004. The upper ceiling was raised to 50 in September 2006 with the option for higher numbers on a case-by-case basis.

-- Scope of Eligible Visitors. In January 2003, Taiwan announced that companies in Taiwan could invite potential buyers from the Mainland. In November 2004, the requirement that Mainland employees invited by a firm must have worked for the firm for a certain amount of time was eliminated.

-- Guarantee Requirement. In August 2002, the requirement that multinational firms identify a local guarantor for invited Mainland employees was eliminated.

-- Processing Time. In February 2002, Taiwan announced that the processing time would be reduced from two months to ten days and only five days in emergency cases.

-- Quality of Life. In October 2004, Taiwan announced that Mainland personnel with long-term residence permits were allowed to open accounts in Taiwan banks. In November 2004, rules on Mainland spouses of foreign professionals were also relaxed. Taiwan announced in November 2006 that children of Mainland employees in Taiwan on intra-company transfers were allowed to attend

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Taiwan schools.

Producing Results

¶4. (U) Each of these measures is small but taken together they have had significant results. The number of entry-permits issued to PRC passport holders coming to Taiwan for commercial purposes increased 32.6 percent to reach 33,605 in 2006. This followed a 47.3 percent increase in ¶2005. In August, approximately 400 Mainland employees of Microsoft were able to come to Taiwan for a conference. Amcham told AIT that its members report fewer problems than two or three years ago in obtaining the entry permits they need for their employees.

¶5. (SBU) One of the most important changes has been reduction in processing time. Despite the commitment in 2002 to reduce processing time to 10 day, as recently as 2004, Amcham members reported that it generally took a month. Improvement started to appear in 2005. As reported ref A, Air Products Asia Inc. conducted a test case for Amcham in fall 2005 in which all of the applicants were processed in less than four working days. Taiwan officials were aware of the test case, which may have affected the outcome. However, Air Products Vice President Tom Johnson recently confirmed for AIT that Taiwan is now consistently processing cases more rapidly. He said applications from his company generally take eight to ten days. Microsoft Taiwan Government Relations Manager Hope Ong told AIT that Taiwan Authorities were very accommodating in arranging visas for the conference reported in para. 4 above.

Larger Problems Persist

¶6. (U) Despite recent progress, Taiwan can still do more as part of a broader effort to remove restrictions on hiring practices. U.S. and other foreign businesses

complain that Taiwan places too many restrictions in general on bringing in foreign personnel for long-term assignments. As unemployment declines, concerns about labor shortages in Taiwan have risen. A survey of manufacturing companies conducted by Taiwan's Council of Labor Affairs in August 2006, estimated a shortage of more than 80,000 workers in Taiwan. More than a quarter of firms who responded to the survey reported problems due to labor shortage. The largest shortage was in unskilled labor, where firms reported a gap of 57,000 workers. However, Taiwan's high-tech companies also complain of shortages of highly skilled workers. The Executive Yuan's Science and Technology Advisory Group (STAG) estimates that demand for workers among Taiwan's high-tech industries -- especially semiconductors, digital content, flat-panel displays and information services -- will outpace supply by 8,550 employees in 2007 and 10,450 in 2008.

Comment: A New Approach

¶7. (SBU) Through gradual and sometimes piecemeal liberalization of restrictions on entry-permits for Mainland employees, Taiwan has made considerable progress in making it easier for firms to do business here. At this stage, Taiwan would be well served by treating employees from the Mainland more like personnel from any other foreign location. This would help Taiwan realize its potential as a regional business center for an integrated greater China market. Combining this approach with a more aggressive effort to ease restrictions on hiring foreign workers in general could improve labor market conditions in Taiwan, enhancing its attractiveness as an investment destination.

YOUNG